

## **ECONOMIC HIGHLIGHTS – FEBRUARY 2006 (PART 2)**

The following are notable economic issues in T&T during the second half of February:

1. Central Bank raises Repo rate to 6.5 pct
2. ALCOA to build smelter for \$1.5 billion
3. Banks recording phenomenal profits

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### **1. Central Bank raises Repo rate to 6.5 pct**

The Central Bank of T&T raised the “Repo” rate from 6.25 percent to 6.50 percent on February 24. The main reason for the decision was headline inflation, now at 7.04 percent largely because of food prices, currently rising by 22.8 percent. The Central Bank stated that financial conditions in January did not vary much from the latter part of 2005. It noted that in December it required commercial banks to deposit TT1 billion into interest-bearing accounts, which helped soak up excess liquidity. The bank has absorbed a further TT1.9 billion of liquidity via foreign exchange sales so far in 2006.

### **2. ALCOA to build smelter for \$1.5 billion**

ALCOA signed an “agreement in principle” with GOTT to build an aluminum smelter in southwestern Trinidad. This follows the signing of a memorandum of understanding in May 2004. According to ALCOA CEO Alain Belda the project will eventually provide 750-800 permanent jobs, help diversify the T&T economy, and contribute to the ALCOA belief of the Caribbean being a “major supplier of global aluminum and aluminum products.” There will be an additional 1,500 jobs on the two-year construction project. Before groundbreaking takes place, an environmental impact assessment (EIA) will be done, as well as feasibility studies to more accurately assess both financial and labor costs. The 341,000 metric ton per year smelter, an associated anode plant, and a cast house will cost a combined US\$1.5 billion.

### **3. Banks recording phenomenal profits**

The February 16 launch of Intercommercial Trust and Merchant Bank was evidence for the Central Bank that the T&T economy is experiencing hearty growth in both energy and finance. Central Bank Governor Ewart Williams said that this was due to sound economic policies arising from “the liberalization of the financial sector,” which he said was just as important to the T&T economy as twelve years of continuous growth, keeping inflation in check and reducing unemployment. According to Williams, banks here are “recording phenomenal profits,” with average return on assets in the range of 3.5 percent. He said banks are more than adequately capitalized, with an industry average capital ratio of 20 percent. Williams said Jamaica-based Intercommercial was an example of the proliferation in CARICOM of cross-border ownership of financial institutions, and is evidence of its confidence in the T&T financial sector. He said products from merchant banks like Intercommercial were becoming important sources of funding business activity. As an example, Williams said sovereign bond placements in T&T over the last five years amounted to TT16 billion while private debt issues totaled TT10.5 billion over the same period.